

# CRS Report for Congress

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## Agriculture and China's Accession to the World Trade Organization

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### Summary

The prospect of future growth in demand for agricultural products makes China's accession to the World Trade Organization (WTO) an important issue for the U.S. agricultural sector. Most agricultural interest groups strongly support China's entry into the WTO, if in the process China agrees to open further its markets for U.S. agricultural products. U.S.-China negotiations over the latter's accession to the WTO resulted in agreements to eliminate China's sanitary and phytosanitary (SPS) barriers to U.S. exports of wheat, meats, and citrus. China has also agreed, upon its accession to the WTO, to substantial reductions in tariffs on agricultural products and to the establishment of tariff rate quotas which expand market access for several agricultural products. Nontrade issues such as China's human rights policies, alleged espionage and theft of nuclear technology, and suspected intrusions into U.S. electoral politics also will affect the United States' ultimate position on Chinese accession to the WTO. This report will be updated as events warrant.

### U.S.-China Agricultural Trade

U.S. agricultural exports to China were \$1.002 billion in fiscal year 1999, making it the United States' eighth largest market for farm products. An additional \$1.3 billion of U.S. agricultural products were shipped to Hong Kong in 1999. In contrast to an overall trade deficit with the country, the United States maintains an agricultural trade surplus with China; farm exports exceeded imports by \$240 million, down from almost \$800 million in 1998. In the short term, U.S. agricultural exports to China are expected to decline. The U.S. Department of Agriculture (USDA) forecasts that exports to China will fall slightly, to \$1.0 billion, in FY2000. Slower economic growth and reduced export earnings (linked to financial crises elsewhere in Asia) have contributed to lower import demand. Several factors—China's 1.2 billion population, rising incomes, a growing middle class—suggest, however, that in the long term, China has enormous potential as a market for U.S. agricultural products.

The future prospect of growth in demand for agricultural products makes China's accession to the WTO an important issue for the U.S. agricultural sector. Most agricultural interest groups see negotiations over the terms of China's accession to the WTO as a way to deal with tariff and nontariff barriers that have impeded U.S. farm exports and to bring China under WTO dispute settlement procedures. Most agricultural interests welcomed the November 15, 1999 announcement by the President and China's Prime Minister of an agreement on the latter's accession to the WTO. Opposition to China's admission to the WTO comes from those skeptical about China's willingness to open its markets to competition and to accept WTO rules and disciplines. Nontrade issues such as China's human rights policies also have led many in Congress to question the appropriateness of U.S. support of China's accession to the WTO.<sup>1</sup>

## **U.S.-China Agricultural Trade Issues**

China has restricted market access for U.S. agricultural products through various means. Tariffs, sanitary and phytosanitary measures, and restrictions that preclude commercial activities of U.S. exporters of agricultural products in China have been major obstacles to U.S. agricultural exports.

China has maintained high tariffs on agricultural products. Its average tariff rate is around 40%, but many products are protected by much higher rates. Tariffs for grains, oilseeds, and tobacco have been as high as 100% ad valorem. Tariffs, however, can vary as products may be exempted from published rates or be treated differently at different geographical points of entry. Meat tariffs have averaged around 45%, with the highest rates applied to imports of beef.

Sanitary and phytosanitary (SPS) measures also have impeded U.S. agricultural exports. In a memorandum of understanding on nontariff barriers to trade with the United States signed in 1992, China agreed to base its SPS standards on scientific principles. The U.S. Trade Representative (USTR) reports that China has generally met this requirement, but acknowledges that China's SPS standards are often "overly strict, unevenly applied, and not backed up by modern laboratory techniques."

China has used SPS restrictions to block U.S. exports of wheat, meats, and citrus. For more than 20 years, China has banned the import of wheat affected with TCK smut, a wheat fungus. This ban effectively has precluded exports of wheat from the Pacific Northwest. U.S. plant scientists have maintained that TCK poses no human health threat nor does it alter the baking quality of wheat. China has admitted meat products from only five approved U.S. plants (totaling only 28,600 metric tons in 1998). Also banned has been the entry of citrus fruits from all parts of the United States because of past occurrences of Mediterranean fruit flies in certain U.S. regions.

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<sup>1</sup>Other CRS reports deal with China's accession to the WTO, China's economy, and U.S.-China foreign policy differences, including *China and the World Trade Organization*, CRS Report RS20139; *China's Economic Conditions*, CRS Issue Brief IB98014, updated regularly; and *China's Changing Conditions: Possible Outcomes and Implications for U.S. Interests*, CRS Issue Brief IB97049, updated regularly.

Chinese restrictions on “trading rights” constitute another significant barrier to U.S. agricultural exports. China limits the types and numbers of enterprises that have the legal right to engage in international trade. Only firms granted trading rights may import products into China and have access to China’s distribution system. In addition, some products, such as grains, cotton, and vegetable oils can be imported only or principally through state trading enterprises (STEs).

## **WTO Accession and China**

Negotiations over a country’s prospective admission to the WTO proceeds along two lines—bilateral negotiations between an applicant and its major trading partners, and multilateral negotiations to develop a “protocol of accession” in a Working Party composed of interested WTO members. Bilateral negotiations address both market access issues of importance to trading partners and protocol issues concerning the applicant country’s adherence to WTO rules and obligations. China has completed accession negotiations with Australia, Canada, and Japan in addition to the United States, but has yet to conclude bilateral and protocol negotiations with the European Union. Multilateral negotiation, between China and members of the Working Party, address WTO rules and obligations as well.

Accession negotiations concluded in April 1999 between the United States and China resulted in three important bilateral agreements on agricultural trade. These include specific U.S.-China accords to remove certain SPS measures that have blocked trade. In addition, negotiations resulted in broader market opening commitments for agricultural products once China becomes a WTO member.

The President did not accept the April agreement with China, citing unresolved negotiating issues. U.S. bombing of the Chinese embassy in Belgrade during air attacks on Serbia resulted in China’s withdrawal from further WTO negotiations with the United States. Negotiations resumed in late 1999 and an agreement was announced, but not published, on November 15, 1999. Indications are that the agricultural components of the November agreement are the same as those in the April agreement made public by USTR.

## **U.S.-China Bilateral Agreements on Wheat, Meats, and Citrus**

In the course of the accession negotiations, China and the United States reached an agreement on the application of sanitary and phytosanitary restrictions on wheat, meat, and citrus imports. These agreements were negotiated in parallel with the agricultural market access agreements that would be part of China’s protocol of accession to the WTO, but, in principle, became effective immediately on signature. The agreements were signed on April 14, 1999, and resolve several longstanding agricultural trade disputes between the United States and China. Implementation of these bilateral agreements slowed to a standstill when the accession negotiations ceased. Conversely, the accession agreement reached in November appears to remove any obstacle from China’s failure to implement the agreements.

China agreed that SPS disputes should be settled scientifically. Acceptance of this principle is interpreted by observers as evidence of China’s willingness to implement the

obligation of the WTO SPS Agreement which requires adherence to science and risk assessment in justifying SPS measures. The specifics of the agreements are:

- China will eliminate restrictions on wheat imports from the Pacific Northwest imposed out of concern for TCK smut;
- China will open its market to U.S. pork, beef, and poultry imports by agreeing to accept USDA certification of the safety of U.S. products exported; and
- China will eliminate its comprehensive ban on imports of U.S. oranges, grapefruit, and other citrus fruit.

## China's Agreements on Market Access Commitments

China's commitments on SPS measures for wheat, meats, and citrus are specific to the United States. Conversely, China's market access commitments, which would be implemented upon its accession to the WTO, are global and open to all WTO members. The agricultural market access measures include tariff reductions, the establishment of tariff rate quotas for bulk commodities, elimination of export subsidies, and a phase-out of restrictions on trading rights. These agreements would provide opportunities to U.S. producers to compete with other agricultural exporting WTO members for a share of China's market.

**Tariffs.** Upon accession, China would reduce its tariffs for agricultural products to an average level of 17%. According to USTR, the average tariff reduction for several U.S. agricultural products, including soybeans, meats, fruits, wine, and dairy products, would drop from 31.5% to 14.5%. Tariff cuts would be phased in by 2004, the date when WTO members (that are developing countries) will have implemented their Uruguay Round tariff cuts. Specific tariff cuts include:

Product	Current level(%)	2004 (%)
Soybeans	(not available)	3
Beef	45	12
Pork	20	12
Poultry	20	10
Citrus	40	12
Grapes	40	13
Apples	330	10
Almonds	30	10
Wine	65	20
Cheese	50	12
Ice Cream	45	19
Source: USTR		

**Tariff Rate Quotas (TRQs).** China has agreed to establish TRQs for bulk agricultural commodities as part of its accession agreement. A TRQ provides for a specified level of imports up to a quota limit with low (1-3%) or zero tariffs on within-quota imports. Imports above the quota would be assessed a higher duty. Establishment of TRQs meets WTO requirements that nontariff quantitative barriers be converted to tariff rate quotas. TRQs for several commodities of interest to U.S. producers include:

Commodity	TRQ	Comments
Soybean Oil	1.7 million metric tons (mmt) rising to 3.3 mmt by 2005.	Private sector trade will be allocated 50% of the TRQ rising to 90% by 2006.
Wheat	7.3 mmt rising to 9.3 mmt.	China's current wheat import level is less than 2 mmt; private sector will receive 10% of the allocation with subsequent reallocation of unused state enterprise portions later in a calendar year.
Corn	4.5 mmt rising to 7.2 mmt.	Current corn import level is 250,000 metric tons. Private sector allocated 25% of the TRQ, rising to 40% by 2004 with reallocation of unused STE quotas later in the calendar year.
Rice	2.6 mmt rising to 5.3 mmt.	50% allocated to the private sector. Half of the TRQ will be for short and medium grain rice, in which the United States is competitive. Current import level is 250,000 metric tons (mt).
Cotton	743,000 mt rising to 894,000 mt by 2004.	Present import level is 200,000 mt. Private sector allocated 67% of this TRQ.

Source: USTR

No TRQ will be established for barley, but its tariff will be reduced to 9%.

**Export Subsidies.** China also agreed to eliminate export subsidies on corn, cotton, and rice. China's export subsidy commitment is complementary to a U.S. objective

for the next round of multilateral trade negotiations in agriculture, i.e., the elimination of agricultural export subsidies.

**Trading Rights.** China agreed to eliminate restrictions on trading rights for both agricultural and industrial products over a three-year phase-in period. At the end of that transition period, all foreign and domestic enterprises will have trading rights. Full trading and distribution rights will enable U.S. firms to deal directly with Chinese customers rather than through intermediary companies with exclusive rights to import.

## **Congress and China's Accession to the WTO**

Under current law, the United States extends most-favored-nation (MFN), or normal trading relations (NTR), treatment to China only if China complies with the freedom-of-emigration conditions in the Jackson-Vanik amendment to the Trade Act of 1974 (P.L. 93-618, Section 401). MFN, or NTR, status means that products enter the United States at the same low tariff rates that apply to virtually all other U.S. trading partners. Continuation of MFN for China depends upon the extension of an annual waiver of Jackson-Vanik by the President, subject to a resolution of disapproval by either congressional chamber. The conditional MFN which applies to China, if China were to accede to the WTO, would conflict with the WTO requirement that members extend unconditional MFN treatment to all other members. Thus the United States could not apply the WTO agreements to China or expect to benefit from the accession agreement unless the law were changed and China accorded permanent MFN status.

Other legislation also bears on China's accession to the WTO. Section 122 of the Uruguay Round Agreements Act of 1994 (P.L. 103-465) requires USTR to consult with the appropriate committees on WTO questions, including the accession of new members. The Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418, section 1106) requires the President, when considering the application of countries like China, to negotiate an agreement addressing the operations of STEs that adversely affect U.S. trade.

Bills introduced in the 106<sup>th</sup> Congress could affect the U.S. position on China's accession to the WTO. H.R. 577 (Bereuter) encourages China to join the WTO by exempting it from the Jackson-Vanik amendment upon accession to the WTO. H.R. 884 (Gephardt), S. 742 (Grassley), and S.743 (Hollings), would require prior congressional approval before the United States could support the admission of China to the WTO.

Legislation to accord permanent MFN status to China appears likely prior to the August congressional recess when the EU will have completed its accession negotiations with China and China itself has ratified an accession agreement. Many agriculture and business interests would like to see Congress take up the issue of permanent MFN soon. Congressional support for China's accession to the WTO, and for permanent MFN, is also affected by several nontrade issues, including China's human rights policies, alleged espionage and theft of nuclear technology, and suspected illegal campaign contributions. Many Members of Congress argue that U.S. support for China's accession to the WTO should be withheld until these issues are resolved.